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LINGJIN

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**Lingbao Gold Group Company Ltd.**

**靈寶黃金集團股份有限公司**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 3330)**

## **SUPPLEMENTAL ANNOUNCEMENT**

Reference is made to the positive profit alert made by Lingbao Gold Group Company Ltd. (the “**Company**”, together with its subsidiaries (the “**Group**”)) dated 15 March 2019, the announcement of annual results for the year ended 31 December 2018 of the Company dated 29 March 2019 (the “**Results Announcement**”) and the 2018 annual report of the Company dated 25 April 2019 (collectively referred to as “**Announcements**”). Unless the context otherwise indicated, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements.

The Board would like to supplement that the Group’s overall production volume and business performance for the year ended 31 December 2018 did not achieve the level that it had expected, the main reasons of which are as follows:

### **1. The Special Campaign for Safety Production**

On 15 August 2018, the Safety Production Supervision and Administration Bureau of Lingbao City (靈寶市安全生產監督管理局) and the Safety Production Committee of Lingbao City (靈寶市安全生產委員會) have issued the “Notice on Launching the Special Campaign against “illegal activities and irregularities” on Non-coal Mine Safety Production Area” (《關於開展非煤礦山安全生產領域“打非治違”專項行動的通知》) (the “**Notice**”). Based on the Group’s self-inspection findings, the Group believed that the Notice would not have a significant impact on the production and operation activities of the mining companies of the Group. Based on the Group’s previous years’ experience, such similar campaign did not have a significant impact on the Group’s suppliers.

In September 2018, the Group realized that the above-mentioned government-led special campaign was enforced much stricter and the scope of the campaign was wider than those in previous years. As a result, many suppliers were also affected by such campaign in the second half of 2018 and were unable to carry out normal production. The Group has learnt from the smelting branch of the Group during the production and operation report meeting convened by the Group on 10 October 2018 that such campaign has caused different degrees of impact on certain suppliers of the Group and their supply of raw materials to the Group.

**2. Restriction on the Group's gold production in November and December 2018**

On 31 October 2018, 8 November 2018, 25 November 2018, 8 December 2018, 13 December 2018 and 29 December 2018, respectively, the Group received a total of six different levels of notices regarding weather warning and environmental pollution management issued from local government agencies to enterprises in the relevant industries, the main contents of which were that the government would impose various mandatory reduction of discharge of pollutants measures on the enterprises. As a result, the Group's production capacity during the implementation period of the aforementioned mandatory measures was restricted.

**3. Negotiation with Suppliers regarding Procurement**

On 6 September 2018, the Group negotiated with a potential supplier regarding the procurement of compound gold. After several rounds of commercial negotiations and assessing the costs, transportation risks and profits involved, the Group decided to suspend the cooperation plan with the potential supplier, considering that the potential supplier required the Group to bear the fluctuation risk of product price and transportation expenses during the course of the transaction. Notwithstanding the aforesaid, the Group has been looking for other suitable potential suppliers to cooperate with for the procurement of compound gold.

**4. Notification from Individual Suppliers Facing Production Suspension and Financial Difficulties**

On 20 December 2018, the government issued a notice regarding the closure of multiple pits in accordance to the relevant PRC Laws. Subsequently, the Group received written notice from a certain supplier on 2 January 2019 and was informed that such supplier could not continue to provide raw materials for the Group and that it was also unable to refund the procurement deposits paid by the Group due to financial difficulties that it was experiencing at the same time. The Group made an assessment over the recoverability of the procurement deposits paid to its other suppliers and taking into full account of the findings of such assessment, the Group has decided to make an overall impairment provision of approximately RMB657,000,000 in the consolidated financial statements for the year ended 31 December 2018 of the Group in respect of the procurement deposits paid by the Group to the suppliers who were adversely affected by the aforementioned notice

regarding the closure of multiple pits in the PRC. In view of the above circumstance, the Group has engaged a PRC legal adviser to gather relevant information and plans to file legal proceedings against the individual supplier.

**5. Impairment Loss of Prepaid Tax**

Due to the changes in organizational structure of the tax authority in Lingbao City, on 20 December 2018, the local tax authority expressed that consolidation of the filing systems may lead to failure to deduct prepaid taxes of the Group in previous years. On 29 December 2018, the representatives of the Group and the relevant tax authority conducted a telephone conversation but the tax authority did not give a clear answer as to whether the prepaid taxes could be deducted in the future. In view of the above, the Group believed that there was significant uncertainty on the recoverability of such prepaid tax because no written reply was received from tax authority before the publication of Results Announcement and therefore, the Group had made a full provision for impairment of such prepaid tax of RMB174,000,000 when preparing the Group's consolidated financial statements for the year ended 31 December 2018.

**6. Business outlook of 2019**

Constantly challenged by unfavourable factors in 2018, including change in policies on safety production and environmental inspection, as well as the instability in both the supply of raw materials and gold production, the Group anticipates that the estimated production volume of gold will continue to be affected during the first half of 2019. However, the Group will remain committed to become a powerhouse that constantly expands its primary gold operation. Besides pursuing prudent strategies in a positive manner for its gold mining and smelting business, the Group will simultaneously optimize, strengthen and expand its production capabilities for its gold mining and smelting operations. For the financial year of 2019, the Group strives to achieve the estimated gold production output as set out in the circular of the Company dated 31 August 2018 in connection with the very substantial disposal and connected transaction in relation to the disposal of 100% equity interest in a wholly-owned subsidiary. Further details on the overall business outlook of the Group for the year ending 31 December 2019 will be disclosed in the Company's upcoming 2019 interim results announcement.

In spite of the above effects, considering the overall impact of issues and also of the disposal of the total issued share capital of Lingbao Wason Copper-Foil Company Ltd. on the Group's consolidated financial statements for the year ended 31 December 2018, the Group still recorded shareholders' distributable profit amounting to RMB796,162,000 in 2018 (2017: RMB79,834,000). Therefore, the board of directors of the Company believes that the decrease in the gold production volume in 2018 has no significant impact on the Company's share price.

By order of the Board  
**Lingbao Gold Group Company Ltd.**  
**Chen Jianzheng**  
*Chairman*

Henan, the PRC, 27 June 2019

*As at the date of this announcement, the Board of the Company comprises five executive directors, namely Mr. Chen Jianzheng, Mr. Xing Jiangze, Ms. Zhou Xing, Mr. Zhao Kun and Mr. Wang Leo; two non-executive directors, namely Mr. Zhang Feihu and Mr. Shi Yuchen; and four independent non-executive directors, namely Mr. Yang Dongsheng, Mr. Han Qinchun, Mr. Wang Jiheng and Mr. Wang Guanghua.*